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Chief, D/E

26 April 1955

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Comments on

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A. CONCLUSIONS

1. We agree that the probable utility of pre-emptive buying in wartime is limited, perhaps (in the words of [redacted] "extremely limited".

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2. We disagree with [redacted] final conclusion, "It seems unlikely that pre-emptive buying in wartime could make any significant contribution to the Allied effort." This statement goes too far. It is always the last drop of water that fills the bucket. The final test of any feasible course of action is whether its results would be worth its cost.

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3. We recommend that [redacted] Note expressly recognize the fact that its principal application in practice may be not to purely pre-emptive purchases, which are likely to be rare, but to the pre-emptive element of purchases made for a variety of reasons including pre-emption. (e.g., war trade agreements)

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4. We recommend that the "PROSPECTS FOR PRE-EMPTION" section [redacted] be supplemented with a clear statement of the possibilities and limitations of pre-emption, including the optimum conditions for its use, along the lines of the following discussion.

B. DISCUSSION

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1. [redacted] Note constitutes an interesting and thoughtful first approach to a knotty problem. In certain major respects, however, it requires further qualification.

2. In practice, pre-emption is hard to distinguish from ordinary procurement. That is, purchases in [redacted] are nearly always made in order to obtain valuable supplies, and not merely to withhold them from the enemy. [redacted] Note concerns pure pre-emption - an abstraction. This fact does not vitiate the analysis, but it should be stated, since the element of procurement in individual purchases will raise additional considerations which are not discussed.

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3. Pre-emptive buying is essentially an emergency measure, in the sense that it is temporary and limited in its effects, in addition to being costly, and thus should ordinarily be regarded as a last resort. In the past, it has often proved unsatisfactory - largely because of the methods adopted and the occasions chosen for its use. Nevertheless, it can be a valuable tool of economic warfare under appropriate circumstances.

4. If pre-emptive buying is, in each instance, begun soon enough, conducted on a sufficient scale, centralized in a single instrumentality, and highly concentrated on the really vital commodities in appropriate neutral countries, it can be a useful ancillary means of withholding strategic commodities from the enemy. It is costly, but there are ways of minimizing its cost. It is most useful as a temporary, supplementary measure on opportune occasions.

5. Although a thorough analysis of pre-emptive techniques would be too lengthy for the present purpose, the following remarks may be helpful. When a new, large-scale buyer enters a market, the effect is naturally to raise prices and stimulate production. In turn, this effect tends to raise the cost and/or defeat the purpose of pre-emption. It is, however, subject to some degree of control. For example, pre-emption works best (*ceteris paribus*) with commodities having a relatively inelastic supply (e.g., requiring a relatively large initial investment to produce). Furthermore, it is possible to avoid any sizable stimulus to prices or production by such methods as dealing through neutral agents whose purchases are apparently made for their own account, or exploiting the Allied bargaining position (e.g., as purchaser or supplier, through control of shipping, by guaranteeing future purchases) in order to obtain long-term purchase contracts at reasonable prices.

6. The [REDACTED] discussion of "the commodities and manufactures of which the Bloc is still judged deficient" is beyond the scope of this memorandum.

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RR/D/E: [REDACTED] end (25 Apr. 55)

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